

Town of Fort Myers Beach
Agenda Item Summary

Blue Sheet Number: **2011-039-U**

1. Requested Motion:

Meeting Date: April 18, 2011

Adopt Resolution 11-02-U accepting the Basic Financial Statements and Audit for Fiscal Year 2009-2010 as presented by the General Manager and further move that the General Manager be authorized to fulfill any administrative functions in filing these documents with the State of Florida as required by Florida Statute.

Why the action is necessary:

This action fulfills the requirements of Florida Statute regarding financial responsibility of a municipality.

What the action accomplishes:

This action fulfills the requirements of Florida Statute regarding financial responsibility of a municipality.

2. Agenda:

☐ Consent
☒ Administrative

3. Requirement/Purpose:

☒ Resolution
☐ Ordinance
☐ Other:

4. Submitter of Information:

☐ Council
☐ Department:
☐ Town Attorney

5. Background:

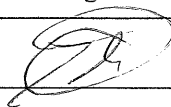

The Basic Financial Statements and Audit for Fiscal Year 2009-2010 were presented by Neil Unruh of Shinn & Company LLC *Certified Public Accountants and Consultants* on April 18, 2011 for review by Board of Directors. The financial statements were available to the Board members prior to the meeting and Mr. Unruh provided his contact information so that any Board members with any questions regarding these documents could contact him directly. These documents are presented to the Board of Directors for action and acceptance.

6. Alternative Action:

None.

7. Management Recommendations:

8. Recommended Approval:

Town Manager	Town Attorney	Finance Director	Public Works Director	Community Development Director	Town Clerk
					

9. Council Action:

☐ Approved ☐ Denied ☐ Deferred ☐ Other

RESOLUTION NUMBER 11-02-U

RESOLUTION OF THE TOWN OF Fort Myers BEACH
PUBLIC WORKS SERVICES, INC.
A FLORIDA NOT FOR PROFIT CORPORATION
ACCEPTANCE AND APPROVAL OF CORPORATE AUDIT FOR FISCAL YEAR 2009-2010

WHEREAS, the Town of Fort Myers Beach Public Works Services, Inc., Board of Directors has convened on April 18th, 2011, following proper notice as required by its Articles of Incorporation, By-laws, and as further required by Florida Statute; and

WHEREAS, there was a proper quorum for transaction of corporate business at the aforesaid meeting; and

WHEREAS, the Board of Directors of the Town of Fort Myers Beach Public Works Services, Inc. reviewed the corporate audit for FY 2009-2010 as presented by the General Manager; and

WHEREAS, a proper Motion was duly made and seconded regarding acceptance and approval of the corporate audit for FY 2009-2010; and

WHEREAS, a vote was duly taken upon the aforesaid Motion.

IT IS HEREBY RESOLVED BY THE PUBLIC WORKS SERVICES, INC. OF THE TOWN OF FORT MYERS BEACH, FLORIDA AS FOLLOWS:

SECTION ONE: Authority. This Resolution is enacted pursuant to the provisions of Chapter 95-494, Laws of Florida, Chapter 166, Florida Statutes, and other applicable provisions of law.

SECTION TWO: General Manager's Responsibility. The General Manager of the Public Works Services, Inc. has presented to the Board of Directors the corporate audit for the fiscal year 2009-2010.

SECTION THREE: Approval and Acceptance. The Town of Fort Myers Beach Public Works Services, Inc., by and through its Board of Directors, hereby accepts and approves the corporate audit for fiscal year 2009-2010 and acknowledges that it is true and correct in all material terms. Said audit is attached hereto as Exhibit "A" and hereby incorporated by reference.

SECTION FOUR: Severability. If any one of the provisions of this resolution should be held contrary to any express provision of law or contrary to the policy of express law, although not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such provision shall be null and void and shall be deemed separate from the remaining provisions of this resolution, and in no way affect the validity of all other provisions of this resolution.

SECTION FIVE: Effective Date. This resolution shall become effective immediately upon adoption.

The foregoing resolution was adopted by The Town of Fort Myers Beach Public Works Services, Inc. on April 18th, 2011

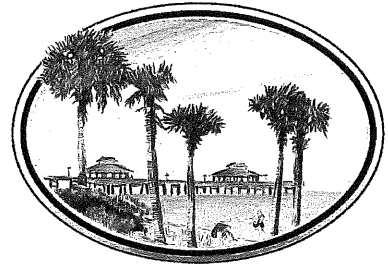
THE TOWN OF Fort Myers BEACH
PUBLIC WORKS SERVICES, INC.

Joe Kosinski, Secretary

Approved as to Legal Sufficiency:

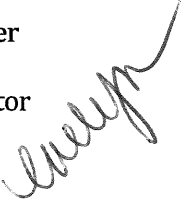
Fowler White Boggs, PA

Town of Fort Myers Beach



Memo

To: Terry Stewart, Town Manager
From: Evelyn Wicks, Finance Director
Date: April 9, 2011
Re: Water Utility



Attached please find the FY 2010 Basic Financial Statements for the water utility. Included in the audit report is the Management Discussion and Analysis which is prepared by the staff. The MD&A provides an overview of the previous year operations and a glimpse into the future plans for the utility. Items of note in the audit report:

- The utility is in full compliance with all terms of the loan agreement as of 9/30/2010. The interest rate for the note is 2.78%. As of 9/30/2009, the utility was in default on the terms of the loan agreement with SunTrust due to debt coverage ratios and the timing of the audited financial statements.
- Net assets increased by \$565,108 for the fiscal year.
- \$197,150 was collected for the Capital Reserve Fee which was implemented with the revised rate structure.

As you are aware, the Town and Utility changed auditing firms for the FY 2010 audit. The contact person if there are any questions or comments:

Shinn & Company LLC
Neil Unruh, CPA
1001 3rd Avenue West, Suite 500
Bradenton, FL 34205
(941) 747-0500
neil@shinnandcompany.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) section of the Town of Fort Myers Beach's Public Works Services, Inc. (the "Utility") Basic Financial Statements presents a narrative overview and analysis of the financial activities of the Utility for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information provided.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and current known facts, please read it in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2010, the assets of the Utility exceeded its liabilities by \$2,516,391 (net assets). Of this amount, \$1,555,145 of unrestricted net assets may be used to meet the utility's ongoing obligations.
- The utility's total net assets increased by \$565,108.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. These statements consist of a series of financial statements.

Financial Statements

The Statement of Net Assets (page 8) provides information about the activities of the Utility as a whole. The Statement of Net Assets' purpose is to be used as an indicator of the improvement of the financial position of the Town. Net assets are the difference between the utility's assets and liabilities.

The Statement of Revenues, Expenses and Changes in Net Assets (page 9) presents information showing how the Utility's net assets changed during the 2010 fiscal year. The statement reflects the expenses of the function, which is offset by operating revenues. Operating revenues are defined as revenues from the sale of water, connecting new customers to the system and miscellaneous other revenue.

Utility Financial Statements

The Utility uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governmental body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The Utility, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found beginning on page 11.

AN OVERVIEW OF THE UTILITY

Summary of Net Assets

The following table reflects a summary of Net Assets for the fiscal years September 30th, 2010, 2009 and 2008.

	2010	2009	2008
ASSETS			
Current and other assets			
Cash	\$ 1,882,897	\$ 3,038,113	\$ 2,522,112
Accounts receivable, net	511,787	442,883	416,487
Restricted cash	239,003	217,096	195,417
Unamortized debt issuance costs	-	3,472	7,639
Capital assets, net	3,301,244	2,296,077	2,360,615
Total assets	5,934,931	5,997,641	5,502,270
LIABILITIES AND NET ASSETS			
Current liabilities			
Payable from current assets	839,537	3,829,262	3,426,003
Payable from restricted assets - customer deposits	239,003	217,096	195,417
Total current liabilities	1,078,540	4,046,358	3,621,420
Long-term liabilities			
Note payable, net of current portion	2,340,000	-	-
Total liabilities	3,418,540	4,046,358	3,621,420
Net Assets			
Invested in capital assets, net of related debt	961,244	(223,923)	(339,385)
Unrestricted	1,555,147	2,175,206	2,220,235
Total net assets	\$ 2,516,391	\$ 1,951,283	\$ 1,880,850

Summary of Changes in Net Assets

The following table compares revenues and expenses for the current fiscal year and the previous fiscal years.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues			
Operating revenues			
Utility revenue	\$ 3,538,105	\$ 2,575,738	\$ 2,344,561
Non-operating revenue			
Interest income	<u>7,174</u>	<u>12,341</u>	<u>83,875</u>
Total revenues	<u>3,545,279</u>	<u>2,588,079</u>	<u>2,428,436</u>
Expenses			
Operating expenses			
All operating expense	2,887,186	2,405,801	2,262,903
Non-operating expense			
Interest expense	<u>109,763</u>	<u>124,938</u>	<u>132,989</u>
Total expenses	<u>2,996,949</u>	<u>2,530,739</u>	<u>2,395,892</u>
Income before capital contributions	548,330	57,340	32,544
Capital contributions	<u>16,778</u>	<u>13,093</u>	<u>2,926</u>
Increase in net assets	565,108	70,433	35,470
Net assets - beginning of year	<u>1,951,283</u>	<u>1,880,850</u>	<u>1,845,380</u>
Net assets - end of year	<u>\$ 2,516,391</u>	<u>\$ 1,951,283</u>	<u>\$ 1,880,850</u>

- Total revenues increased by \$957,200 or 36.98 % from 2009 to 2010, due primarily to an increase in water billing fees and implementation of a Capital Reserves Fee effective February 1, 2008 (*of the increased revenues \$197,150 was collected for Capital Reserves*)
- Total expenses increased by \$466,210 or 18.42% from 2009 to 2010 due primarily to an increase in the cost of water purchased from Lee County.
- Interest income decreased by \$5,167 or 41.87% from 2009 to 2010, due to the decline in interest rates related to the economic downturn.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table provides a comparative summary of capital assets (net of accumulated depreciation) by category.

	2010	2009	2008
Land	\$ 305,000	\$ 305,000	\$ 305,000
Construction in Process	1,294,095	172,325	127,000
Computer Equipment	61,115	45,364	45,364
South Booster Station	362,949	351,950	351,950
North Booster Station	94,701	94,701	94,701
Distribution Lines	3,011,706	2,923,736	2,808,941
Generators	95,104	95,104	95,104
	5,224,670	3,988,180	3,828,060
Accumulated Depreciation	(1,923,427)	(1,692,103)	(1,467,445)
Total Capital Assets	\$ 3,301,243	\$ 2,296,077	\$ 2,360,615

Long-term Liabilities

As of September 30, 2010 and 2009, the utility had long-term obligations in the form of a note payable. The note is to a financial institution, bearing interest at 2.78%, collateralized by a lien on the net revenues of the Town of Fort Myers Beach Public Works Services, Inc. Additionally, the Town of Fort Myers Beach has guaranteed the note with a pledge of its non-ad-valorem revenues. The note was re-financed in August, 2010.

	2010	2009	2008
Notes payable - long term	\$ 2,340,000	\$ -	\$ -
Notes payable - short term	-	2,520,000	2,700,000
	\$ 2,340,000	\$ 2,520,000	\$ 2,700,000

Additional information on the utility's long-term debt can be found in Note 6 (page 15) to the financial statements.

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

The Town of Fort Myers Beach Public Works Services, Inc. water utility is facing a variety of challenges in the near future. In FY 2009, the management of the utility authorized a comprehensive rate study. The rate study provided the basis for the rate increase that was approved and implemented in 2010.

The existing water distribution system requires extensive capital investment. In February 2008 Boyle Engineering Corporation was contracted by the water utility to prepare an evaluation of the existing water distribution system. The evaluation identified nearly \$6,600,000 of needed improvements to the system. The evaluation is being updated to reflect the current condition of the water system.

The rate increase has been designed to provide adequate funding to service the debt, stabilize the financial position of the utility and provide additional funding for capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the Town of Fort Myers Beach Public Works Services, Inc. finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Town of Fort Myers Beach
Public Works Services, Inc.
Finance Director
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

02
RESOLUTION NUMBER 11-04-U

RESOLUTION OF THE TOWN OF Fort Myers BEACH
PUBLIC WORKS SERVICES, INC.
A FLORIDA NOT FOR PROFIT CORPORATION
ACCEPTANCE AND APPROVAL OF CORPORATE AUDIT FOR FISCAL YEAR 2009-2010

WHEREAS, the Town of Fort Myers Beach Public Works Services, Inc., Board of Directors has convened on April 18th, 2011, following proper notice as required by its Articles of Incorporation, By-laws, and as further required by Florida Statute; and

WHEREAS, there was a proper quorum for transaction of corporate business at the aforesaid meeting; and

WHEREAS, the Board of Directors of the Town of Fort Myers Beach Public Works Services, Inc. reviewed the corporate audit for FY 2009-2010 as presented by the General Manager; and

WHEREAS, a proper Motion was duly made and seconded regarding acceptance and approval of the corporate audit for FY 2009-2010; and

WHEREAS, a vote was duly taken upon the aforesaid Motion.

IT IS HEREBY RESOLVED BY THE PUBLIC WORKS SERVICES, INC. OF THE TOWN OF FORT MYERS BEACH, FLORIDA AS FOLLOWS:

SECTION ONE: Authority. This Resolution is enacted pursuant to the provisions of Chapter 95-494, Laws of Florida, Chapter 166, Florida Statutes, and other applicable provisions of law.

SECTION TWO: General Manager's Responsibility. The General Manager of the Public Works Services, Inc. has presented to the Board of Directors the corporate audit for the fiscal year 2009-2010.

SECTION THREE: Approval and Acceptance. The Town of Fort Myers Beach Public Works Services, Inc., by and through its Board of Directors, hereby accepts and approves the corporate audit for fiscal year 2009-2010 and acknowledges that it is true and correct in all material terms. Said audit is attached hereto as Exhibit "A" and hereby incorporated by reference.

SECTION FOUR: Severability. If any one of the provisions of this resolution should be held contrary to any express provision of law or contrary to the policy of express law, although not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such provision shall be null and void and shall be deemed separate from the remaining provisions of this resolution, and in no way affect the validity of all other provisions of this resolution.

SECTION FIVE: Effective Date. This resolution shall become effective immediately upon adoption.

The foregoing resolution was adopted by The Town of Fort Myers Beach Public Works Services, Inc. on April 18th, 2011

THE TOWN OF Fort Myers BEACH
PUBLIC WORKS SERVICES, INC.

Joe Kosinski, Secretary

Approved as to Legal Sufficiency:

Fowler White Boggs, PA

draft 4-9-11

**TOWN OF FORT MYERS BEACH
PUBLIC WORKS SERVICES, INC.
(A Component Unit of the Town of Fort Myers Beach, Florida)**

COMPONENT UNIT FINANCIAL REPORT

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2010 AND 2009**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Town of Fort Myers Beach Public Works Services, Inc.
Fort Myers Beach, Florida

We have audited the basic financial statements of the Town of Fort Myers Beach Public Works Services, Inc. (the "Utility"), a component unit of the Town of Fort Myers Beach, Florida, as of and for the years ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Utility as of September 30, 2009, were audited by other auditors whose report dated May 24, 2010, expressed an unqualified opinion on those statements.

We conducted our audit as of and for the year ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April XX, 2011 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Management's Discussion and Analysis (MD&A) section of the Town of Fort Myers Beach's Public Works Services, Inc. (the "Utility") Basic Financial Statements presents a narrative overview and analysis of the financial activities of the Utility for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information provided.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and current known facts, please read it in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2010, the assets of the Utility exceeded its liabilities by \$2,516,389 (net assets). Of this amount, \$1,555,145 of unrestricted net assets may be used to meet the utility's ongoing obligations.
- The Utility's total net assets increased by \$565,106.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Summary of Changes in Net Assets

The following table compares revenues and expenses for the years ended September 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues			
Operating revenues			
Utility revenue	\$ 3,538,105	\$ 2,575,738	\$ 2,344,561
Non-operating revenue			
Interest income	7,174	12,341	83,875
Total revenues	<u>3,545,279</u>	<u>2,588,079</u>	<u>2,428,436</u>
Expenses			
Operating expenses			
All operating expense	2,887,188	2,405,801	2,262,903
Non-operating expense			
Interest expense	109,763	124,938	132,989
Total expenses	<u>2,996,951</u>	<u>2,530,739</u>	<u>2,395,892</u>
Income before capital contributions	548,328	57,340	32,544
Capital contributions	<u>16,778</u>	<u>13,093</u>	<u>2,926</u>
Increase in net assets	565,106	70,433	35,470
Net assets - beginning of year	<u>1,951,283</u>	<u>1,880,850</u>	<u>1,845,380</u>
Net assets - end of year	<u>\$ 2,516,389</u>	<u>\$ 1,951,283</u>	<u>\$ 1,880,850</u>

- Total revenue increased by \$957,200 or 36.98% from 2009 to 2010, due primarily to an increase in water billing fees and implementation of a Capital Reserves Fee effective February 1, 2008 (*of the increased revenues, \$197,150 was collected for Capital Reserves*).
- Total expenses increased by \$466,212 or 18.42% from 2009 to 2010, due primarily to an increase in the cost of water purchased from Lee County.
- Total interest income decreased by \$5,167 or 41.87% from 2009 to 2010, due to the decline in interest rates related to the economic downturn.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

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The rate increase has been designed to provide adequate funding to service the debt, stabilize the financial position of the utility and provide additional funding for capital improvements.

Requests for Information

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Town of Fort Myers Beach
Public Works Services, Inc.
Finance Director
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009

draft 4-9-11

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Water utility revenue	\$ 3,538,105	\$ 2,575,738
OPERATING EXPENSES		
Bulk water	1,331,354	1,328,551
Depreciation expense	231,324	224,659
Management fees	379,285	379,285
Repairs and maintenance	556,637	239,876
Insurance	79,923	75,878
Administrative expense	156,526	45,674
Power	32,543	36,040
Professional services	43,745	38,456
Other operating supplies and expenses	48,524	19,686
Miscellaneous expenses	7,337	1,386
Office expenses	19,990	16,310
Total operating expenses	<u>2,887,188</u>	<u>2,405,801</u>
Operating income	<u>650,917</u>	<u>169,937</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	7,174	12,341
Interest expense	<u>(109,763)</u>	<u>(124,938)</u>
Total non-operating expenses	<u>(102,589)</u>	<u>(112,597)</u>
Income before capital contributions	548,328	57,340
Capital contributions - connection fees	<u>16,778</u>	<u>13,093</u>
Change in net assets	565,106	70,433
TOTAL NET ASSETS, beginning of year	<u>1,951,283</u>	<u>1,880,850</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 2,516,389</u></u>	<u><u>\$ 1,951,283</u></u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

draft 4-9-11

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Fort Myers Beach (the "Town") is a municipality in the State of Florida. It is governed by an elected Town Council, which is governed by State statutes and regulations. The Town Council established the Town of Fort Myers Beach Public Works Services, Inc. (the "Utility") to provide potable water to the incorporated area of the Town. The Utility was incorporated on April 16, 2001, as a not-for-profit organization under the provisions of Internal Revenue Code Section 501(c)(2). The Utility is legally separate from the Town, but the Council acts as its governing Board of Directors. Therefore, the Utility is considered a component unit of the Town. The Utility is reported as a blended component unit within the Town's primary government financial statements. The financial statements of the Utility include all funds, activities and component units for which it is accountable.

Basis of Presentation

The Utility is considered a governmental entity and accounts for its activities using the "governmental model" in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Fund accounting

The Utility uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement focus

The Utility is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the statement of net assets, and the reported net assets (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Utility. The operating statement reports increases (revenues) and decreases (expenses) in total economic net worth.

Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Utility is accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred. Pursuant to GASB Statement Number 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Utility has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

draft 4-9-11

NOTE 2 CASH

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. In accordance with its policy, all Utility depositories are banks designated by the Florida Chief Financial Officer as qualified public depositories. Chapter 280 of the Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Florida Chief Financial Officer as agent for the public entities. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and nonnegotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Florida Chief Financial Officer eligible collateral at the pledging level required pursuant to Chapter 280. The Florida Security for Public Deposits Act has a procedure for the payment of losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof, and therefore, the Utility is not exposed to custodial credit risk for its deposits.

NOTE 3 ACCOUNTS RECEIVABLE

At September 30, 2010 and 2009, accounts receivable consisted of the following:

	Gross accounts receivable	Less allowance for doubtful accounts	Net accounts receivable
2010:			
Water	\$ 289,932	\$ 13,421	\$ 276,511
Sewer	246,695	11,419	235,276
Total	<u>\$ 536,627</u>	<u>\$ 24,840</u>	<u>\$ 511,787</u>
2009:			
Water	\$ 200,330	\$ 10,298	\$ 190,032
Sewer	266,553	13,702	252,851
Total	<u>\$ 466,883</u>	<u>\$ 24,000</u>	<u>\$ 442,883</u>

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

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NOTE 6 NOTE PAYABLE

Note payable at September 30, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable to a financial institution, bearing interest at 2.78 percent, collateralized by a lien on and a pledge of the net revenues of the Utility. Additionally, the Town of Fort Myers Beach, Florida has, by way of resolution, pledged its non-Ad-Valorem revenues for payment of principal and interest on this debt in the event the Utility's net revenues are insufficient to make those payments. The Note was refinanced in August 2010 and matures August 2013.	<u>\$ 2,340,000</u>	<u>\$ 2,520,000</u>

Changes in Long - Term Obligations

The changes in long-term obligations for the years ended September 30, 2010 and 2009, were as follows:

	<u>October 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2010</u>	<u>Amounts Due Within One Year</u>
Note payable	<u>\$ 2,520,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,340,000</u>	<u>\$ -</u>

	<u>October 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2009</u>	<u>Amounts Due Within One Year</u>
Note payable	<u>\$ 2,700,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,520,000</u>	<u>\$ 2,520,000</u>

Annual Maturities of Long-Term Obligations

The annual debt service requirement to pay the note payable at September 30, 2010, was as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 32,526	\$ 32,526
2012	180,000	62,550	242,550
2013	2,160,000	76,659	2,236,659
	<u>\$ 2,340,000</u>	<u>\$ 171,735</u>	<u>\$ 2,511,735</u>

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NOTE 9 ECONOMIC DEPENDENCY

On August 3, 2001, a Bulk Water Agreement was entered into with Lee County, Florida, to provide the Utility with potable water. Lee County is currently the only source of the Utility's potable water that it supplies to the residents of the Town of Fort Myers Beach. The Bulk Water Agreement is for twenty-five years. The inter-local agreement provides that the County may, from time to time, increase the rate charged for cost of bulk water provided to the Utility. At September 30, 2010, the rate charged from Lee County was \$3.20 per 1,000 gallons.

2009-1

Criteria

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards.

Condition

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause

The Utility has a limited number of personnel.

Effect

The design of the controls over the financial reporting process affects the Utility's ability to report their financial data consistent with the assertions of management.

Recommendation

We recommend management be aware of the accounting and financial reporting standards applicable to the Utility. Should the Utility elect to establish the full oversight of the financial statement preparation process, additional policies and procedures would be required.

2009-2

Criteria

Management is responsible for establishing and maintaining internal controls for the proper recording of all the Utility's receipts and disbursements, including year-end accruals and all capital asset activity.

Condition

As part of the audit, we proposed audit adjustments to revise the Utility's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts, capitalization of capital assets that were improperly booked as repairs and maintenance expense, and net asset reclassifications.

Effect

The design of the internal controls over recording receipts and disbursements, including reclassifications, could affect the ability of the Utility to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation

We recommend management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

Recommendation

We recommend Utility management be aware of the lack of segregation of duties and lack of management oversight within the accounting functions and assess the need to establish additional controls over the billings and collections process. If additional segregation is not feasible, we recommend Utility management implement oversight procedures to ensure the internal control policies and procedures are being followed by Utility staff.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance which we are required to report under *Government Auditing Standards*.

The Utility's responses to the findings identified in our audit are described in the accompanying Response to the Management Letter. We did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management of the Utility and the Auditor General of the State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.

CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
April XX, 2011

2009-3 The information and communication components of internal control include timely reporting and accurate financial information. Complete and accurate monthly financial information is not being prepared and presented to the Board of Directors in a timely manner.

The office manager of the water utility is responsible for all aspects of billing, collections and accounting functions. The utility uses a software package provided by the Town years ago. This software program does not communicate with the Town's financial accounting. Therefore, all revenue, expenses and other accounting functions are performed during the month at the utility office and then must be manually reposted to the Town's accounting system. Quarterly financial statements have been provided to the Board members in the current year. Town staff has been researching a number of options to upgrade the accounting software system.

2009-04 Management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the company. In addition, management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective. The utility does not have adequate segregation of the accounting functions or adequate management oversight surrounding billings and cash collections, which is necessary to ensure adequate internal controls.

The management of the utility understands the issue and recognizes the need for more oversight of the current financial operations. These controls should include reviews of record keeping activities, billing documents and cash collection procedures. At a minimum, quarterly reviews should be accomplished through on-site visits to the utility. The Town accounting staff does all bank reconciliations and accounts payable for the water utility. As mentioned earlier, the software program used by the utility does not communicate with the Town's accounting financial software. Combining the accounting functions for the town and utility will provide more efficient, direct and timely oversight of the water utility activities.